

FILED

2007 MAR 16 PM 3:54

U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
LOS ANGELES

ALAN BERG (Bar No. 100288)
alanhd@aol.com
LAW OFFICE OF ALAN BERG
15165 Ventura Boulevard, Suite 400
Sherman Oaks, California 91403
Telephone: (818) 788-8300
Facsimile: (818) 788-8104

SHERRIE R. SAVETT
ssavett@bm.net
DOUGLAS M. RISEN
drisen@bm.net
BERGER & MONTAGUE, P.C.
1622 Locust Street
Philadelphia, PA 19103-6365
Telephone: (215) 875-3000
Facsimile: (215) 875-4604

Attorneys for Plaintiff JOE VERNE,
Individually and On Behalf of All Others Similarly Situated

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

JOE VERNE, Individually and On
Behalf of All Others Similarly Situated,

Plaintiff,

v.

**NEW CENTURY FINANCIAL
CORPORATION, BRAD A.
MORRICE, ROBERT K. COLE,
PATTI M. DODGE, EDWARD F.
GOTSCHALL, BEAR STEARNS &
CO. INC., MORGAN STANLEY &
CO. INC., STIFEL NICOLAUS &
CO., INC. and JEFFRIES & CO.
INC.,**

Defendants

No.

SACV07-0320 JUS (AMX)

**CLASS ACTION COMPLAINT
FOR VIOLATION OF THE
FEDERAL
SECURITIES LAWS**

DEMAND FOR JURY TRIAL

INTRODUCTION

Plaintiff makes the following allegations, except as to allegations specifically pertaining to plaintiff and his counsel, based upon the investigation undertaken by plaintiff's counsel, which investigation included analysis of publicly-available news articles and reports, public filings, press releases, Securities and Exchange Commission ("SEC") filings, and other matters of public record.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") of New Century Financial Corporation ("New Century" or the "Company") between August 15, 2006 and February 7, 2007 (the "Class Period"), against New Century and certain of its officers and/or directors, and the underwriters of its Series B Preferred Stock offering, seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act") and the Securities Act of 1933 (the "Securities Act").

2. New Century is a real estate investment trust that, through its subsidiaries, operates mortgage finance companies. The Company originates and purchases primarily first-mortgage loans worldwide. New Century is headquartered in Irvine, California.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and financial results. As a result of defendants' false statements, New Century Series B Preferred Stock traded at artificially inflated prices during the Class Period, reaching a high of \$25.56 per share on November 24, 2006.

4. On February 7, 2007, after the market closed, New Century issued a press release entitled "New Century Financial Corporation to Restate Financial

1 Statements for the Quarters Ended March 31, June 30 and September 30, 2006.” The
2 press release stated in part:

3 New Century Financial Corporation (NYSE: NEW), a real estate
4 investment trust (REIT), today announced that **it will restate its**
5 **consolidated financial results for the quarters ended March 31, June**
6 **30 and September 30, 2006 to correct errors the company**
7 **discovered in its application of generally accepted accounting**
8 **principles regarding the company's allowance for loan repurchase**
9 **losses.**

10 The company establishes an allowance for repurchase losses on
11 loans sold, which is a reserve for expenses and losses that may be
12 incurred by the company due to the potential repurchase of loans
13 resulting from early-payment defaults by the underlying borrowers or
14 based on alleged violations of representations and warranties in
15 connection with the sale of these loans. When the company repurchases
16 loans, it adds the repurchased loans to its balance sheet as mortgage
17 loans held for sale at their estimated fair values, and reduces the
18 repurchase reserve by the amount the repurchase prices exceed the fair
19 values. During the second and third quarters of 2006, the company's
20 accounting policies incorrectly applied Statement of Financial
21 Accounting Standards No. 140 - Accounting for Transfers and Servicing
22 of Financial Assets and Extinguishment of Liabilities. Specifically, the
23 company did not include the expected discount upon disposition of
24 loans when estimating its allowance for loan repurchase losses.

25 In addition, the company's methodology for estimating the volume
26 of repurchase claims to be included in the repurchase reserve calculation
27
28

1 did not properly consider, in each of the first three quarters of 2006, the
2 growing volume of repurchase claims outstanding that resulted from the
3 increasing pace of repurchase requests that occurred in 2006,
4 compounded by the increasing length of time between the whole loan
5 sales and the receipt and processing of the repurchase request.

6 Importantly, the foregoing adjustments are generally non-cash in
7 nature. Moreover, the company had cash and liquidity in excess of \$350
8 million at December 31, 2006.

9 Although the company's full review of the legal, accounting and
10 tax impact of the restatements is ongoing, **at this time the company**
11 **expects that, once restated, its net earnings for each of the first three**
12 **quarters of 2006 will be reduced.**

13 In light of the pending restatements, the company's previously
14 filed condensed consolidated financial statements for the quarters ended
15 March 31, June 30 and September 30, 2006 and all earnings-related
16 press releases for those periods should no longer be relied upon. The
17 company expects to file amended Quarterly Reports on Form 10-Q for
18 the quarters ended March 31, June 30 and September 30, 2006 as soon
19 as practicable, with a goal to file by March 1, 2007. **The company also**
20 **expects that the errors leading to these restatements constitute**
21 **material weaknesses in its internal control over financial reporting**
22 **for the year ended December 31, 2006.** However, the company has
23 taken significant steps to remediate these weaknesses and anticipates
24 remediating them as soon as practicable.

25 The company's fourth quarter and full-year 2006 earnings
26 announcement, originally scheduled for February 8, 2007, has been
27
28

1 postponed to an undetermined future date, which will follow the
2 company's filing of its amended Quarterly Reports on Form 10-Q for the
3 quarters ended March 31, June 30 and September 30, 2006.

4 Fourth Quarter 2006 Developments

5 The increasing industry trend of early-payment defaults and,
6 consequently, loan repurchases intensified in the fourth quarter of 2006.
7 The company continued to observe this increased trend in its early-
8 payment default experience in the fourth quarter, and the volume of
9 repurchased loans and repurchase claims remains high.

10 In addition, the company currently expects to record a fair value
11 adjustment to its residual interests to reflect revised prepayment, loss
12 and discount rate assumptions with respect to the loans underlying these
13 residual interests, based on indicative market data. While the company
14 is still determining the magnitude of these adjustments to its fourth
15 quarter 2006 results, the company expects the combined impact of the
16 foregoing to result in a net loss for that period. [Emphasis added].

17 5. In reaction to the disclosure, New Century's Series B Preferred Stock
18 collapsed, from \$24.95 per share on February 7, 2007, to \$19.04 on February 12,
19 2007 – a decline of over 23%. As of March 14, 2007, the Series B Preferred Stock
20 collapsed as low as \$6, representing a 76% decline.

21 JURISDICTION AND VENUE

22 6. The claims alleged herein arise under Sections 11, 12(a)(2) and 15 of the
23 Securities Act of 1933, 15 U.S.C. §§ 77(k), 77l(a)(2) and 77o; and Sections 10(b) and
24 20(a) of the Securities Exchange Act of 1934, 15 U.S.C. §§ 78j(b) and 78t(a), and
25 Rule 10b-5 promulgated thereunder by the SEC.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

4
5
6
7
8
9

10
11
12
13

14

15
16
17
18
19
20

21
22
23
24

25

26

1 Board, President and Chief Executive Officer ("CEO") of New Century. During the
2 Class Period, Morrice was responsible for the Company's false financial statements.

3 13. Defendant Robert K. Cole ("Cole") co-founded New Century in 1995.
4 Defendant Cole is, and at all relevant times was, a director of the Company and until
5 December 2006 was Chairman of the Board and from December 1995 to July 2006
6 was CEO of the Company. During the Class Period, Cole was responsible for the
7 Company's false financial statements.

8 14. Defendant Patti M. Dodge ("Dodge") has been Executive Vice President,
9 Investor Relations, of the Company since November 2006, and from July 2004
10 through November 2006 was Chief Financial Officer ("CFO") of New Century.
11 During the Class Period, Dodge was responsible for the Company's false financial
12 statements.

13 15. Defendant Edward F. Gotschall ("Gotschall") co-founded the Company
14 in 1995. Defendant Gotschall is, and at all relevant times was, Chairman-Finance of
15 the Board, Vice Chairman of the Board and a director of the Company. During the
16 Class Period, Gotschall was responsible for the Company's false financial statements.

17 16. Defendants Morrice, Cole, Dodge and Gotschall (the "Individual
18 Defendants"), because of their positions with the Company, possessed the power and
19 authority to control the contents of New Century's prospectuses and supplements
20 thereto, registration statements, quarterly reports, press releases and presentations to
21 securities analysts, money and portfolio managers and institutional investors, *i.e.*, the
22 market. They were provided with copies of the Company's reports and press releases
23 alleged herein to be misleading prior to or shortly after their issuance and had the
24 ability and opportunity to prevent their issuance or cause them to be corrected.
25 Because of their positions with the Company, and their access to material non-public
26 information available to them but not to the public, Morrice, Cole, Dodge and
27
28

1 Gotschall knew that the adverse facts specified herein had not been disclosed to and
2 were being concealed from the public and that the positive representations being
3 made were then materially false and misleading.

4 17. Defendant Bear Stearns & Co. Inc. ("Bear Stearns") served as an
5 underwriter of New Century's Series B Preferred Stock offering. Pursuant to the
6 Prospectus Supplement, Bear Stearns purchased 750,000 shares of New Century's
7 Series B Preferred Stock for sale directly to the public at the initial public offering
8 price of \$25 per share.

9 18. Defendant Morgan Stanley & Co. Inc. ("Morgan Stanley") served as an
10 underwriter of New Century's Series B Preferred Stock offering. Pursuant to the
11 Prospectus Supplement, Morgan Stanley purchased 750,000 shares of New Century's
12 Series B Preferred Stock for sale directly to the public at the initial public offering
13 price of \$25 per share.

14 19. Defendant Stifel Nicolaus & Co., Inc. ("Stifel Nicolaus") served as an
15 underwriter of New Century's Series B Preferred Stock offering. Pursuant to the
16 Prospectus Supplement, Stifel Nicolaus purchased 380,000 shares of New Century's
17 Series B Preferred Stock for sale directly to the public at the initial public offering
18 price of \$25 per share.

19 20. Defendant Jeffries & Co., Inc. ("Jeffries") served as an underwriter of
20 New Century's Series B Preferred Stock offering. Pursuant to the Prospectus
21 Supplement, Jeffries purchased 120,000 shares of New Century's Series B Preferred
22 Stock for sale directly to the public at the initial public offering price of \$25 per
23 share.

24 21. Defendants Bear Stearns, Morgan Stanley, Stifel Nicolaus, and Jeffries,
25 collectively referred to herein as the ("Underwriter Defendants"), are liable for the
26
27
28

1 false and misleading statements in the Registration Statement, Prospectus, and
2 Prospectus Supplement.

3 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

4 22. Plaintiff brings this action as a class action pursuant to Federal Rule of
5 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all persons who
6 purchased or otherwise acquired New Century's Series B Preferred Stock between
7 August 15, 2006 and February 7, 2007, inclusive (the "Class Period"), and who were
8 damaged thereby. Excluded from the Class are defendants, members of the
9 immediate family of each of the Individual Defendants, any subsidiary or affiliate of
10 New Century and the directors, officers and employees of New Century or its
11 subsidiaries or affiliates, or any entity in which any excluded person has a controlling
12 interest, and the legal representatives, heirs, successors and assigns of any excluded
13 person.

14 23. The members of the Class are so numerous that joinder of all members
15 if impracticable. While the exact number of Class members is unknown to plaintiff
16 at this time and can only be ascertained through appropriate discovery, plaintiff
17 believes that there are hundreds of members of the Class located throughout the
18 United States. As of February 7, 2007, there were at least 2 million shares of the
19 Series B Preferred Stock outstanding. Throughout the Class Period, Series B
20 Preferred Stock was traded on the New York Stock Exchange under the symbol
21 "NEW PrB." Record owners and other members of the Class may be identified from
22 records maintained by New Century and/or its transfer agents and may be notified of
23 the pendency of this action by mail, using a form of notice similar to that customarily
24 used in securities class actions.

1 24. Plaintiff's claims are typical of the claims of the other members of the
2 Class as all members of the Class were similarly affected by defendants' wrongful
3 conduct in violation of federal law that is complained of herein.

4 25. Plaintiff will fairly and adequately protect the interests of the members
5 of the Class and has retained counsel competent and experienced in class and
6 securities litigation.

7 26. Common questions of law and fact exist as to all members of the Class.
8 Among the questions of law and fact common to the Class are:

9 (a) whether the federal securities laws were violated by defendants'
10 acts and omissions as alleged herein;

11 (b) whether defendants participated in and pursued the common
12 course of conduct complained of herein;

13 (c) whether documents, press releases, and other statements
14 disseminated to the investing public during the Class Period misrepresented material
15 facts about the business, finances, financial condition and prospects of New Century;

16 (d) whether statements made by defendants to the investing public
17 during the Class Period misrepresented and/or omitted to disclose material facts about
18 the business, finances, value, performance and prospects of New Century;

19 (e) whether the market price of New Century's Series B Preferred
20 Stock during the Class Period was artificially inflated due to the material
21 misrepresentations and failures to correct the material misrepresentations complained
22 of herein; and

23 (f) to what extent the members of the Class have sustained damages
24 and the proper measure of damages.

25 27. A class action is superior to all other available methods for the fair and
26 efficient adjudication of this controversy since joinder of all members is
27
28

1 impracticable. Furthermore, as the damages suffered by individual Class members
2 may be relatively small, the expense and burden of individual litigation make it
3 impossible for members of the Class to individually redress the wrongs done to them.
4 There will be no difficulty in the management of this suit as a class action.

5 **BACKGROUND**

6 28. New Century is a real estate investment trust that, through its
7 subsidiaries, operates mortgage finance companies. The Company originates and
8 purchases primarily first-mortgage loans worldwide. The Company focuses on
9 lending to individuals whose borrowing needs are generally not fulfilled by
10 traditional financial institutions because they do not satisfy the credit, documentation
11 or other underwriting standards prescribed by conventional mortgage lenders and
12 loan buyers. The Company originates and purchases mortgage loans through two
13 divisions: Wholesale Division and Retain Division.

14 29. The Class Period begins on August 15, 2006 – the date that New Century
15 filed its Prospectus Supplement for its IPO of Series B Preferred Stock. That filing
16 incorporated both historical and future financial statements and registration
17 statements by reference, stating in relevant part:

18 We incorporate herein by reference the documents listed below and any
19 other information we file with the Securities and Exchange Commission
20 under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, including
21 any filings after the date of this prospectus supplement until the offering
22 is completed:

23 our Annual Report on Form 10-K for the fiscal year ended December 31,
24 2005, filed on March 16, 2006, including those portions incorporated by
25 reference therein of our Definitive Proxy Statement on Schedule 14A,
26 filed on April 4, 2006;

1 **our Quarterly Reports on Form 10-Q for the quarter ended March**
2 **31, 2006, filed on May 10, 2006, and for the quarter ended June 30,**
3 **2006, filed on August 9, 2006; (Emphasis added)**

4 our Current Reports on Form 8-K . . .

5 the description of our common stock contained in our Registration
6 Statement on Form 8-A, filed with the Securities and Exchange
7 Commission on September 30, 2004, and any amendment or report filed
8 for the purpose of updating such description; and

9 the description of our Series A Preferred Stock, contained in our
10 Registration Statement on Form 8-A, filed with the Securities and
11 Exchange Commission on June 20, 2005, and any other amendment or
12 report filed for the purpose of updating such description.

13 In addition, we also incorporate by reference into this prospectus
14 supplement additional information that we may subsequently file with
15 the Securities and Exchange Commission under Sections 13(a), 13(c),
16 14 or 15(d) of the Exchange Act prior to the termination of the offering.
17 These documents include Annual Reports on Form 10-K, Quarterly
18 Reports on Form 10-Q and Current Reports on Form 8-K, as well as
19 proxy statements.

20 30. The Quarterly Reports referenced in the preceding paragraph are
21 precisely those financial statements that are being restated, which New Century has
22 now admitted were materially false and misleading when made.

23 31. New Century announced on February 8, 2007 that it will restate its
24 consolidated financial results for the quarters ended March 31, June 30 and
25 September 30, 2006 to correct errors the company discovered in its application of
26 GAAP.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS

32. On May 4, 2006, the Company issued a press release entitled "New Century Financial Corporation Reports Strong First Quarter 2006 Results; Company Achieved Earnings-per-Share of \$1.79." The press release stated in part:

New Century Financial Corporation (NYSE: NEW), a real estate investment trust (REIT) and parent company of one of the nation's premier mortgage finance companies, today reported results for the three months ended March 31, 2006.

First Quarter 2006 Highlights

- Earnings-per-share (EPS) of \$1.79
- REIT taxable income(1) of \$1.78 per share fully covered the corresponding dividend of \$1.75 per share
- After-tax return on equity(2) was 19.5 percent
- Securitized \$1.7 billion of mortgage loans at the REIT
- Total loan production was \$13.4 billion in the first quarter 2006 and \$4.7 billion in April 2006
- Maintained non-prime loan acquisition costs (LAC) at 1.66 percent
- Reaffirms 2006 dividend guidance of \$7.30 per share

Financial Results

"We achieved strong first quarter 2006 results highlighted by 21 percent growth in EPS, a 17 percent increase in REIT taxable income, and 31 percent growth in mortgage loan production compared with the same period last year," said Robert K. Cole, Chairman and Chief Executive Officer. "We are also pleased to have maintained low loan acquisition costs, achieved our targeted net operating margin range for

1 the quarter, and added mortgage loans to our REIT portfolio, which will
2 contribute to our ability to pay our projected dividend of \$7.30 per share
3 for 2006."

4 The company reported net earnings of \$103.7 million, or \$1.79
5 per share, for the first quarter of 2006, compared with \$84.8 million, or
6 \$1.48 per share, for the same period in 2005. The year-over-year
7 increase in net earnings was primarily attributable to the growth in
8 mortgage loan production volume and greater contributions to net
9 earnings from the company's REIT portfolio.

10 Mortgage Loan Portfolios

11 During the first quarter of 2006, the company completed two
12 securitizations structured as financings totaling \$1.7 billion in mortgage
13 loans at the REIT, including one securitization consisting solely of \$0.3
14 billion of second lien collateral. Substantially all of the collateral in the
15 \$0.3 billion securitization represents second mortgage loans originated
16 in connection with the company's 80/20-mortgage product. "We believe
17 the securitization of second trust deeds allowed us to capture the full
18 economic value of that particular pool of loans," said Kevin M. Cloyd,
19 President of NC Capital Corporation, the company's secondary
20 marketing subsidiary. "The remaining \$1.4 billion of mortgage loans
21 securitized was representative of our core non-prime mortgage loan
22 production and received favorable credit enhancement from rating
23 agencies as a result of lower loss coverage requirements."

24 At March 31, 2006, the balance of the REIT mortgage loan
25 portfolio was \$14.1 billion and the balance of the taxable REIT
26 subsidiary (TRS) mortgage loan portfolio was \$2.1 billion. The
27
28

1 allowance for losses on loans held for investment was \$186.0 million
2 and \$23.8 million for the REIT and TRS portfolios, respectively,
3 representing 1.32 percent and 1.14 percent of the unpaid principal
4 balance of the respective portfolios. This compares with 1.23 percent
5 and 1.22 percent of the unpaid principal balance of the respective
6 portfolios at December 31, 2005. Delinquency rates as of March 31,
7 2006 and actual losses to date in the company's REIT and TRS
8 portfolios continue to be significantly lower than historical experience.
9 The company's 60-plus day delinquency rates as of March 31, 2006 were
10 4.46 percent at the REIT and 4.78 percent at the TRS. *While actual*
11 *losses to date have been significantly lower than the company's*
12 *expectations, the company continues to build its allowances for loan*
13 *losses based on various factors, which include seasoning of the*
14 *portfolios, as well as overall economic and market conditions.*
15 [Emphasis added].

16 Mortgage Loan Production by Channel -- Non-Prime, Prime and
17 Alt-A

18 The company originates and purchases mortgage loans through
19 two channels -- Wholesale and Retail. The Wholesale channel originates
20 and purchases mortgage loans through a network of independent
21 mortgage brokers and correspondent lenders solicited by its Account
22 Executives. The company's Retail channel originates mortgage loans
23 directly through its 240 branch offices and its central telemarketing unit,
24 as well as through relationships that are referred or solicited through
25 builders and realtors.

26 Total Mortgage Loan Production
27
28

1 Total mortgage loan production for the first quarter of 2006 was
2 \$13.4 billion, a 31 percent increase over the same period a year ago.
3 "Our key objectives this year include maximizing the capabilities of the
4 prime and Alt-A platform we acquired in 2005 for future growth and
5 utilizing that acquisition as a catalyst for expanding the mortgage
6 products we offer through each of our delivery channels," said Brad A.
7 Morrice, Vice Chairman, President and Chief Operating Officer. "This
8 quarter's mortgage loan production results were enhanced by \$1.9 billion
9 in prime and Alt-A originations and we expect to see even stronger
10 results as we continue the expansion of our product lines across all
11 channels."

12
13 Total mortgage loan production for April 2006 was approximately
14 \$4.7 billion, or \$0.235 billion in average daily volume, including \$4.0
15 billion of Wholesale mortgage loan production and \$0.7 billion of Retail
16 mortgage loan production. This compares with \$4.5 billion, or \$0.214
17 in average daily volume, for April 2005. The weighted average coupon
18 for non-prime production in April 2006 was 8.5 percent.

19 (Footnotes omitted.)

20 33. On May 10, 2006, the Company filed its Form 10-Q for the first quarter
21 of 2006, which included the same financial results previously reported in its May 4,
22 2006 press release. The Form 10-Q was specifically incorporated by reference in the
23 Prospectus Supplement. The Form 10-Q also included a certification by Cole, which
24 falsely stated:

1 I, Robert K. Cole, certify that:

- 2 1. I have reviewed this quarterly report on Form 10-Q of New
3 Century Financial Corporation;
- 4 2. Based on my knowledge, this report does not contain any untrue
5 statement of a material fact or omit to state a material fact
6 necessary to make the statements made, in light of the
7 circumstances under which such statements were made, not
8 misleading with respect to the period covered by this report;
- 9 3. Based on my knowledge, the financial statements, and other
10 financial information included in this report, fairly present in all
11 material respects the financial condition, results of operations and
12 cash flows of the registrant as of, and for, the periods presented
13 in this report;
- 14
- 15 4. The registrant's other certifying officers and I are responsible for
16 establishing and maintaining disclosure controls and procedures
17 (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and
18 internal control over financial reporting (as defined in Exchange
19 Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- 20 a) Designed such disclosure controls and procedures, or
21 caused such disclosure controls and procedures to be
22 designed under our supervision, to ensure that material
23 information relating to the registrant, including its
24 consolidated subsidiaries, is made known to us by others
25 within those entities, particularly during the period in
26 which this report is being prepared;
- 27
- 28

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial

1 reporting which are reasonably likely to adversely affect
2 the registrant's ability to record, process, summarize and
3 report financial information; and

- 4 b) Any fraud, whether or not material, that involves
5 management or other employees who have a significant
6 role in the registrant's internal control over financial
7 reporting.

8 34. Defendants Morrice and Dodge also signed nearly identical
9 certifications, included in the Form 10-Q, and incorporated by reference in the
10 Prospectus Supplement.

11 35. On August 3, 2006, the Company issued a press release entitled "New
12 Century Financial Corporation Reports Second Quarter 2006 Results; Board Declares
13 Third Quarter Dividend of \$1.85 per Share." The press release stated in part:

14 New Century Financial Corporation (NYSE: NEW), a real estate
15 investment trust (REIT) and parent company of one of the nation's
16 premier mortgage finance companies, today reported results for the three
17 and six months ended June 30, 2006.

18 Second Quarter 2006 Results and Highlights

- 19 • Earnings-per-share (EPS) of \$1.81
- 20 • REIT taxable income(1) per share of \$1.40
- 21 • Total mortgage loan production of \$16.2 billion; total loan
22 production for July 2006 of approximately \$5.3 billion
- 23 • Non-prime net operating margin increased to 1.01 percent
- 24 • Non-prime loan acquisition costs (LAC) decreased to 1.51
25 percent
- 26 • Prime/Alt-A platform achieved profitability
- 27
- 28

- 1 • After-tax return on equity(2) was 19.8 percent
- 2 • Board declared third quarter dividend of \$1.85 per share
- 3 • Reaffirmed 2006 dividend guidance of \$7.30 per share
- 4 • Chief Financial Officer Patti M. Dodge to transition to
- 5 newly created executive role when successor is in place

6 "Our second quarter results are evidence of the strength and
7 stability of our franchise," said Brad A. Morrice, President and Chief
8 Executive Officer. "We achieved the second highest quarterly loan
9 production volume in our history, while substantially improving our
10 operating margin over the first quarter in a challenging environment. As
11 a result, our second quarter net earnings were \$105.5 million, or \$1.81
12 per share, an 11 percent increase in net earnings compared with the
13 second quarter of 2005. These results are particularly impressive
14 considering that we only sold or securitized 82 percent of the loans we
15 originated in the second quarter, increasing loans held for sale by \$3.0
16 billion. These loans are covered by forward sales commitments with
17 premiums in excess of 102, so we expect to realize the related earnings
18 in the third quarter."

19 Mortgage Loan Portfolios

20 During the second quarter of 2006, the company completed \$1.7
21 billion in securitizations structured as financings at the REIT level,
22 including the company's first Alt-A loan securitization of \$0.5 billion
23 and a \$1.2 billion securitization of non-prime product. "The Alt-A
24 transaction enhanced our secondary market execution and diversified
25 our REIT portfolio of mortgage loans with a new asset class," said
26
27
28

1 Kevin M. Cloyd, President of NC Capital Corporation, the company's
2 secondary marketing subsidiary.

3 *At June 30, 2006, the balance of the mortgage loan portfolio*
4 *was \$16.0 billion. The allowance for losses on loans held for*
5 *investment was \$209.9 million, representing 1.31 percent of the*
6 *unpaid principal balance of the portfolio. This compares with 0.79*
7 *percent of the unpaid principal balance of the portfolio at June 30,*
8 *2005 and 1.30 percent of the portfolio at March 31, 2006. Delinquency*
9 *rates as of June 30, 2006 in the company's portfolio continue to be*
10 *significantly lower than historical experience. The company's 60-plus*
11 *day delinquency rate as of June 30, 2006 was 4.61 percent compared*
12 *with 4.50 percent in the previous quarter. The company's 2005 and*
13 *2006 vintages are experiencing more normalized delinquency trends*
14 *than the 2003 and 2004 vintages, which have performed exceptionally*
15 *well when compared with historical experience. "We are comfortable*
16 *with our current loan loss reserve levels, which take into consideration*
17 *not only normal portfolio seasoning but also our higher cumulative*
18 *loss expectations for the newer vintages," said Patti M. Dodge,*
19 *Executive Vice President and Chief Financial Officer. [Emphasis*
20 *added].*

21 REIT portfolio income declined to \$52.0 million in the second
22 quarter of 2006 compared with \$83.3 million in the first quarter. REIT
23 portfolio income was \$79.2 million in the second quarter of 2005. The
24 sequential decrease in REIT portfolio income is primarily the result of
25 a lower return-on-assets ("ROA") in the second quarter when compared
26 to the first quarter. ROA declined to 1.49 percent in the second quarter
27
28

1 from 2.34 percent in the first quarter as a result of a decrease in interest
2 spread attributable to portfolio seasoning and the expected spread
3 compression that comes with such seasoning. In addition, the company's
4 shift in 2006 to embedding swaps in its securitization transactions,
5 which results in a more level yield over the life of the transaction, also
6 led to a decrease in interest spread. Lower prepayment income, hedge re-
7 balancing gains and income from hedge ineffectiveness and other
8 derivative instruments also had a significant impact on ROA.

9
10 * * *

11 Total Mortgage Loan Production

12 Total mortgage loan production for the second quarter of 2006
13 was \$16.2 billion, a 20 percent increase over the same period a year ago
14 and a 21 percent increase over the first quarter of 2006. Excluding the
15 prime and Alt-A loan origination platform that was acquired in the third
16 quarter of 2005, second quarter loan production increased 5 percent
17 year-over-year. For the quarter, the company's Wholesale channel
18 originated \$13.8 billion of mortgage loans and the Retail channel
19 originated \$2.4 billion. "We are pleased with the second quarter's strong
20 loan production volume, which resulted from modest growth in our core
21 non-prime product coupled with the addition of our Prime and Alt-A
22 products," said Mr. Morrice. "Additionally, we introduced a new credit
23 grade during the quarter that serves borrowers with qualifications
24 between Alt-A and non-prime. We believe this AAA credit grade is
25 rapidly gaining acceptance in the market place."

1 Total mortgage loan production for July 2006 was approximately
2 \$5.3 billion, including \$4.6 billion of Wholesale mortgage loan
3 production and \$0.7 billion of Retail mortgage loan production. This
4 compares with \$4.6 billion for July 2005.

5 (Footnotes omitted.)

6 36. On August 9, 2006, the Company filed its Form 10-Q for the second
7 quarter of 2006, which included the same financial results previously reported in its
8 August 3, 2006 press release. The Form 10-Q was specifically incorporated by
9 reference in the Prospectus Supplement. The Form 10-Q also included a certification
10 by Cole, which falsely stated:

11 I, Robert K. Cole, certify that:

- 12 1. I have reviewed this quarterly report on Form 10-Q of New
13 Century Financial Corporation;
- 14 2. Based on my knowledge, this report does not contain any untrue
15 statement of a material fact or omit to state a material fact
16 necessary to make the statements made, in light of the
17 circumstances under which such statements were made, not
18 misleading with respect to the period covered by this report;
- 19 3. Based on my knowledge, the financial statements, and other
20 financial information included in this report, fairly present in all
21 material respects the financial condition, results of operations and
22 cash flows of the registrant as of, and for, the periods presented
23 in this report;
- 24 4. The registrant's other certifying officers and I are responsible for
25 establishing and maintaining disclosure controls and procedures
26 (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and
27

1 internal control over financial reporting (as defined in Exchange
2 Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- 3 a) Designed such disclosure controls and procedures, or
4 caused such disclosure controls and procedures to be
5 designed under our supervision, to ensure that material
6 information relating to the registrant, including its
7 consolidated subsidiaries, is made known to us by others
8 within those entities, particularly during the period in
9 which this report is being prepared;
- 10 b) Designed such internal control over financial reporting, or
11 caused such internal control over financial reporting to be
12 designed under our supervision, to provide reasonable
13 assurance regarding the reliability of financial reporting
14 and the preparation of financial statements for external
15 purposes in accordance with generally accepted accounting
16 principles;
- 17 c) Evaluated the effectiveness of the registrant's disclosure
18 controls and procedures and presented in this report our
19 conclusions about the effectiveness of the disclosure
20 controls and procedures, as of the end of the period
21 covered by this report based on such evaluation; and
- 22 d) Disclosed in this report any change in the registrant's
23 internal control over financial reporting that occurred
24 during the registrant's most recent fiscal quarter (the
25 registrant's fourth fiscal quarter in the case of an annual
26 report) that has materially affected, or is reasonably likely
27

1 to materially affect, the registrant's internal control over
2 financial reporting; and

3 5. The registrant's other certifying officers and I have disclosed,
4 based on our most recent evaluation of internal control over
5 financial reporting, to the registrant's auditors and the audit
6 committee of the registrant's board of directors (or persons
7 performing the equivalent functions):

8 a) All significant deficiencies and material weaknesses in the
9 design or operation of internal control over financial
10 reporting which are reasonably likely to adversely affect
11 the registrant's ability to record, process, summarize and
12 report financial information; and

13 b) Any fraud, whether or not material, that involves
14 management or other employees who have a significant
15 role in the registrant's internal control over financial
16 reporting.

17 37. Defendants Morrice and Dodge signed nearly identical certifications
18 included in the Form 10-Q, and incorporated by reference in the Prospectus
19 Supplement.

20 38. On November 2, 2006, the Company issued a press release entitled "New
21 Century Financial Corporation Reports Third Quarter 2006 Results and Provides
22 Outlook for 2007; Fourth Quarter Dividend Declared; Brings 2006 Total Dividends
23 to \$7.30 per Share." The press release stated in part:

24 New Century Financial Corporation (NYSE: NEW), a real estate
25 investment trust (REIT) and one of the nation's premier mortgage
26
27
28

1 finance companies, today reported results for the three and nine months
2 ended September 30, 2006.

3 **Highlights**

- 4 • Earnings-per-share (EPS) was \$1.12
- 5 • REIT taxable income(1) per share was \$0.84
- 6
- 7 • Total mortgage loan production was \$15.8 billion
- 8 • Non-prime net operating margin was 0.52 percent
- 9 • Record low non-prime loan acquisition costs (LAC) of
10 1.49 percent
- 11 • After-tax return-on-equity(2) was 12.7 percent
- 12 • Announces acquisition of Irwin Mortgage Corporation's
13 servicing operations
- 14 • Raised \$107 million in gross proceeds of perpetual
15 preferred and trust preferred capital
- 16 • Declared fourth quarter dividend of \$1.90 per share; results
17 in total 2006 dividends of \$7.30 per share
- 18 • Appointed Taj S. Bindra as Executive Vice President and
19 Chief Financial Officer
- 20 • Announces updated financial and secondary market
21 strategy
- 22 • Expects to distribute \$400 million or more to stockholders
23 in 2007 through a combination of dividends and common
24 stock repurchases

25 **Third Quarter 2006 Results**

26

27

28

1 "Current conditions in our industry are clearly challenging," said
2 Brad A. Morrice, President and Chief Executive Officer. "In this
3 context, while our \$1.12 quarterly EPS reflects a year-over-year and
4 sequential decline, it is important to point out that a significant item
5 negatively impacting our EPS was a \$0.75 per share reduction from
6 marking-to-market our derivatives not qualifying for hedge accounting
7 treatment. Notwithstanding the current quarter's impact, we believe our
8 hedging strategies are effective on an economic basis.

9 "Excluding the hedging-related accounting charges, our operating
10 results were solid. As expected, we maintained loan production volume
11 at a level comparable to the previous quarter, achieved record low loan
12 acquisition costs, and improved portfolio interest spread before the
13 impact of hedging during the third quarter. Partially offsetting these
14 positive trends, gain- on-sale declined as a result of increased rating
15 agency credit enhancement levels and higher loan repurchases and
16 discounted loan sales," said Mr. Morrice.

17 (Footnotes omitted.)

18 39. On November 9, 2006, the Company filed its Form 10-Q for the third
19 quarter of 2006, which included the same financial results previously reported. The
20 Form 10-Q also included a certification by Cole, which falsely stated:

21 I, Robert K. Cole, certify that:

- 22 1. I have reviewed this quarterly report on Form 10-Q of New
23 Century Financial Corporation;
- 24 2. Based on my knowledge, this report does not contain any untrue
25 statement of a material fact or omit to state a material fact
26 necessary to make the statements made, in light of the
27

1 circumstances under which such statements were made, not
2 misleading with respect to the period covered by this report;

3 3. Based on my knowledge, the financial statements, and other
4 financial information included in this report, fairly present in all
5 material respects the financial condition, results of operations and
6 cash flows of the registrant as of, and for, the periods presented
7 in this report;

8 4. The registrant's other certifying officers and I are responsible for
9 establishing and maintaining disclosure controls and procedures
10 (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and
11 internal control over financial reporting (as defined in Exchange
12 Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

13 a) Designed such disclosure controls and procedures, or
14 caused such disclosure controls and procedures to be
15 designed under our supervision, to ensure that material
16 information relating to the registrant, including its
17 consolidated subsidiaries, is made known to us by others
18 within those entities, particularly during the period in
19 which this report is being prepared;

20 b) Designed such internal control over financial reporting, or
21 caused such internal control over financial reporting to be
22 designed under our supervision, to provide reasonable
23 assurance regarding the reliability of financial reporting
24 and the preparation of financial statements for external
25 purposes in accordance with generally accepted accounting
26 principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

1 40. Defendants Morrice and Dodge signed nearly identical certifications
2 included in the Form 10-Q.

3 **THE TRUTH IS REVEALED**

4 41. On February 7, 2007, after the market closed, the Company issued a
5 press release entitled "New Century Financial Corporation to Restate Financial
6 Statements for the Quarters Ended March 31, June 30 and September 30, 2006." The
7 press release state in part:

8 New Century Financial Corporation (NYSE: NEW), a real estate
9 investment trust (REIT), today announced that it will restate its
10 consolidated financial results for the quarters ended March 31, June 30
11 and September 30, 2006 to correct errors the company discovered in its
12 application of generally accepted accounting principles regarding the
13 company's allowance for loan repurchase losses.

14 The company establishes an allowance for repurchase losses on
15 loans sold, which is a reserve for expenses and losses that may be
16 incurred by the company due to the potential repurchase of loans
17 resulting from early-payment defaults by the underlying borrowers or
18 based on alleged violations of representations and warranties in
19 connection with the sale of these loans. When the company repurchases
20 loans, it adds the repurchased loans to its balance sheet as mortgage
21 loans held for sale at their estimated fair values, and reduces the
22 repurchase reserve by the amount the repurchase prices exceed the fair
23 values. During the second and third quarters of 2006, the company's
24 accounting policies incorrectly applied Statement of Financial
25 Accounting Standards No. 140 - Accounting for Transfers and Servicing
26 of Financial Assets and Extinguishment of Liabilities. Specifically, the
27
28

1 company did not include the expected discount upon disposition of
2 loans when estimating its allowance for loan repurchase losses.

3 In addition, the company's methodology for estimating the volume
4 of repurchase claims to be included in the repurchase reserve calculation
5 did not properly consider, in each of the first three quarters of 2006, the
6 growing volume of repurchase claims outstanding that resulted from the
7 increasing pace of repurchase requests that occurred in 2006,
8 compounded by the increasing length of time between the whole loan
9 sales and the receipt and processing of the repurchase request.

10 Importantly, the foregoing adjustments are generally non-cash in
11 nature. Moreover, the company had cash and liquidity in excess of \$350
12 million at December 31, 2006.

13 Although the company's full review of the legal, accounting and
14 tax impact of the restatements is ongoing, at this time the company
15 expects that, once restated, its net earnings for each of the first three
16 quarters of 2006 will be reduced.

17 In light of the pending restatements, the company's previously
18 filed condensed consolidated financial statements for the quarters ended
19 March 31, June 30 and September 30, 2006 and all earnings-related
20 press releases for those periods should no longer be relied upon. The
21 company expects to file amended Quarterly Reports on Form 10-Q for
22 the quarters ended March 31, June 30 and September 30, 2006 as soon
23 as practicable, with a goal to file by March 1, 2007. The company also
24 expects that the errors leading to these restatements constitute material
25 weaknesses in its internal control over financial reporting for the year
26 ended December 31, 2006. However, the company has taken significant
27
28

1 steps to remediate these weaknesses and anticipates remediating them
2 as soon as practicable.

3 The company's fourth quarter and full-year 2006 earnings
4 announcement, originally scheduled for February 8, 2007, has been
5 postponed to an undetermined future date, which will follow the
6 company's filing of its amended Quarterly Reports on Form 10-Q for the
7 quarters ended March 31, June 30 and September 30, 2006.

8 Fourth Quarter 2006 Developments

9 The increasing industry trend of early-payment defaults and,
10 consequently, loan repurchases intensified in the fourth quarter of 2006.
11 The company continued to observe this increased trend in its early-
12 payment default experience in the fourth quarter, and the volume of
13 repurchased loans and repurchase claims remains high.

14 In addition, the company currently expects to record a fair value
15 adjustment to its residual interests to reflect revised prepayment, loss
16 and discount rate assumptions with respect to the loans underlying these
17 residual interests, based on indicative market data. While the company
18 is still determining the magnitude of these adjustments to its fourth
19 quarter 2006 results, the company expects the combined impact of the
20 foregoing to result in a net loss for that period.

21 42. On this news, New Century's Series B Preferred Stock collapsed, from
22 \$24.95 per share on February 7, 2007, to \$19.04 on February 12, 2007 – an initial
23 decline of over 23%.

24 43. Incredibly, as reported on March 11, 2007 in the *New York Times*, three
25 weeks after the debacle at New Century was revealed, Bear Stearns issued an upbeat
26 report on March 1, 2007.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

6
7
8
9

10
11
12
13

14
15
16
17
18

19
20
21

22

24

25

1 Attorney's Office in Los Angeles. That probe is connected to trading in
2 the company's securities as well as accounting errors.

3 The New York Stock Exchange yesterday halted trading of New
4 Century's stock until it decides whether to keep listing the company's
5 securities.

6 46. As of March 14, 2007, the Series B Preferred Stock was trading at only
7 \$6 per share, representing a decline of 76% from its IPO price.

8 47. New Century has now admitted that it improperly accounted for its
9 allowance for loan loss reserves in violation of Statement of Financial Accounting
10 Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and*
11 *Extinguishment of Liabilities*, and will restate its results to remove improperly
12 reported income, such that its 1Q 06 through 3Q 06 financial statements were not a
13 fair presentation of New Century's results and were presented in violation of
14 Generally Accepted Accounting Principles ("GAAP") and SEC rules.

15 48. All of the reported financial statements and the related discussions
16 contained therein, which the Individual Defendants caused the Company to file and
17 issue during the Class Period, and in public reports about and press releases issued
18 by the Company were false products of financial manipulations which deceived
19 members of the investing public who purchased New Century securities based upon
20 those representations.

21 49. GAAP are those principles recognized by the accounting profession as
22 the conventions, rules and procedures necessary to define accepted accounting
23 practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states
24 that financial statements filed with the SEC which are not prepared in compliance
25 with GAAP are presumed to be misleading and inaccurate, despite footnote or other
26 disclosure. Regulation S-X requires that interim financial statements must also

1 comply with GAAP, with the exception that interim financial statements need not
2 include disclosure which would be duplicative of disclosures accompanying annual
3 financial statements. 17 C.F.R. §210.10-01(a).

4 50. The fact that New Century will restate its 1Q 06 through 3Q 06 financial
5 statements and that such financial statements should no longer be relied upon is an
6 admission that the financial statements originally issued were false and that the
7 overstatement of income was material. Pursuant to GAAP, as set forth in Accounting
8 Principles Board Opinion ("APB") No. 20, the type of restatement announced by New
9 Century was to correct for material errors in its previously issued financial statements.
10 See APB No. 20, ¶¶7-13. Moreover, FASB Statement of Financial Accounting
11 Standard ("SFAS") No. 154, *Accounting Changes and Error Corrections*, states:
12 "Any error in the financial statements of a prior period discovered subsequent to their
13 issuance shall be reported as a prior-period adjustment by restating the prior-period
14 financial statements." SFAS No. 154, ¶25. Thus, GAAP provides that financial
15 statements should be restated in order to correct an error in previously issued
16 financial statements. New Century's restatement is due to an error. Thus, the
17 restatement is an admission by New Century that its previously issued financial
18 results and its public statements regarding those results were false.

19 51. Due to these accounting improprieties, the Company presented its
20 financial results and statements in a manner which violated GAAP, including the
21 following fundamental accounting principles:

22 (a) The principle that interim financial reporting should be based upon
23 the same accounting principles and practices used to prepare annual financial
24 statements was violated (APB No. 28, ¶10);

25 (b) The principle that financial reporting should provide information
26 that is useful to present and potential investors and creditors and other users in
27

1 making rational investment, credit and similar decisions was violated (FASB
2 Statement of Concepts No. 1, ¶34);

3 (c) The principle that financial reporting should provide information
4 about the economic resources of an enterprise, the claims to those resources, and
5 effects of transactions, events and circumstances that change resources and claims to
6 those resources was violated (FASB Statement of Concepts No. 1, ¶40);

7 (d) The principle that financial reporting should provide information
8 about how management of an enterprise has discharged its stewardship responsibility
9 to owners (stockholders) for the use of enterprise resources entrusted to it was
10 violated. To the extent that management offers securities of the enterprise to the
11 public, it voluntarily accepts wider responsibilities for accountability to prospective
12 investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

13 (e) The principle that financial reporting should provide information
14 about an enterprise's financial performance during a period was violated. Investors
15 and creditors often use information about the past to help in assessing the prospects
16 of an enterprise. Thus, although investment and credit decisions reflect investors'
17 expectations about future enterprise performance, those expectations are commonly
18 based at least partly on evaluations of past enterprise performance (FASB Statement
19 of Concepts No. 1, ¶42);

20 (f) The principle that financial reporting should be reliable in that it
21 represents what it purports to represent was violated. That information should be
22 reliable as well as relevant is a notion that is central to accounting (FASB Statement
23 of Concepts No. 2, ¶¶58-59);

24 (g) The principle of completeness, which means that nothing is left
25 out of the information that may be necessary to insure that it validly represents
26
27
28

1 underlying events and conditions was violated (FASB Statement of Concepts No. 2,
2 ¶79); and

3 (h) The principle that conservatism be used as a prudent reaction to
4 uncertainty to try to ensure that uncertainties and risks inherent in business situations
5 are adequately considered was violated. The best way to avoid injury to investors is
6 to try to ensure that what is reported represents what it purports to represent (FASB
7 Statement of Concepts No. 2, ¶¶95, 97).

8 52. Further, the undisclosed adverse information concealed by defendants
9 during the Class Period is the type of information which, because of SEC regulations,
10 regulations of the national stock exchanges and customary business practice, is
11 expected by investors and securities analysts to be disclosed and is known by
12 corporate officials and their legal and financial advisors to be the type of information
13 which is expected to be and must be disclosed.

14 53. The true facts, which were known by the defendants but concealed from
15 the investing public during the Class Period, were as follows:

16 (a) The Company lacked requisite internal controls, and, as a result,
17 the Company's projections and reported results issued during the Class Period were
18 based upon defective assumptions and/or manipulated facts;

19 (b) The Company's financial statements, Prospectus, Prospectus
20 Supplement, and Registration Statement were materially misstated due to its failure
21 to properly account for its allowance for loan repurchase losses; and

22 (c) The Company's financial statements, Prospectus, Prospectus
23 Supplement, and Registration Statement were materially misstated due to its failure
24 to properly account for its residual interests in securitizations by failing to timely
25 write down the impaired asset.

EFFICIENT MARKET

54. The market for New Century's Series B Preferred Stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, New Century's Series B Preferred Stock traded at artificially inflated prices during the Class Period until the time the truth was finally communicated to the securities markets. Plaintiff and other members of the Class purchased or otherwise acquired New Century's Series B Preferred Stock relying upon the integrity of the Prospectus, Prospectus Supplement (and documents incorporated by reference therein), Registration Statement, and/or the integrity of the market price of New Century's Series B Preferred Stock and market information relating to New Century, and have been damaged thereby. Under these circumstances, all purchasers of New Century's Series B Preferred Stock during the Class Period suffered similar injury, through their purchases at artificially inflated prices and the resulting price drop upon disclosure of the truth, and a presumption of reliance applies.

LOSS CAUSATION

55. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, before and during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about New Century's business, business practices and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of New Century and its business, finances and operations, thus causing New Century's Series B Preferred Stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements

1 during the Class Period resulted in plaintiffs and other members of the Class
2 purchasing New Century's Series B Preferred Stock at an artificially inflated price.
3 Plaintiff and other members of the Class sustained damages, as New Century's Series
4 B Preferred Stock's price plummeted over 23% in response to the February 7, 2007
5 disclosure of the truth.

6 **NO SAFE HARBOR**

7 56. The statutory safe harbor provided for forward-looking statements under
8 certain circumstances does not apply to any of the allegedly false statements pleaded
9 in this complaint. The specific statements pleaded herein were not identified as
10 "forward-looking statements" when made. Nor was it stated with respect to any of
11 the statements forming the basis of this complaint that actual results "could differ
12 materially from those projected." To the extent there were any forward-looking
13 statements, there were no meaningful cautionary statements identifying important
14 factors that could cause actual results to differ materially from those in the
15 purportedly forwarding-looking statements. Alternatively, to the extent that the
16 statutory safe harbor does apply to any forward-looking statements pleaded herein,
17 defendants are liable for those false forward-looking statements because at the time
18 each of those forward-looking statement was false, and/or the forward-looking
19 statement was authorized and/or approved by an executive officer of New Century
20 who knew that those statements were false when made.

21 **COUNT ONE**

22 **Against All Defendants For Violations** 23 **of Section 11 of The Securities Act**

24 57. Plaintiff repeats and realleges allegations 1 through 56, except to the
25 extent such allegations charge the defendants with intentional or reckless misconduct
26 or otherwise sound in fraud.
27
28

1 58. This Count is brought by Plaintiff pursuant to Section 11 of the
2 Securities Act against all defendants, on behalf of all persons who purchased or
3 otherwise acquired New Century's Series B Preferred Stock in or traceable to the IPO
4 between August 15, 2006 and February 7, 2007.

5 59. The Registration Statement prepared by the defendants and distributed
6 in connection with the IPO was inaccurate and misleading, contained misleading
7 statements of material fact, omitted to state other facts necessary to make the
8 statements made not misleading, and failed adequately to disclose material facts as
9 described above.

10 60. The Company is the registrant of the securities issued. The defendants
11 named herein were responsible for the contents and dissemination of the Registration
12 Statement, the Prospectus, and the Prospectus Supplement.

13 61. As issuer of the securities, New Century is strictly liable to Plaintiffs and
14 the Class for the misstatements and omissions in the Registration Statement.

15 62. The Individual Defendants are all liable as signatories of the Registration
16 Statement.

17 63. The Underwriter Defendants are all liable as underwriters of the Series
18 B Preferred Stock offering.

19 64. None of the Individual Defendants nor the Underwriter Defendants
20 named herein made a reasonable investigation or had reasonable grounds for the
21 belief that the statements in the Registration Statement, the Prospectus, and the
22 Prospectus Supplement were true and without omissions of any material facts. Each
23 of the defendants (except for the Company, which is strictly liable) acted negligently.

24 65. Plaintiff and the Class have sustained damages. The value of New
25 Century's Series B Preferred Stock declined substantially on disclosure of the truth,
26 trading well below the IPO price.

1 66. At the time they purchased New Century securities, Plaintiff and other
2 members of the Class were without knowledge of the facts concerning the wrongful
3 conduct alleged herein. Less than one year elapsed from the time that Plaintiff
4 discovered, or reasonably could have discovered, the facts upon which this complaint
5 is based until the time that Plaintiff commenced this action. Less than three years
6 elapsed from the time that the securities upon which this Count is brought were bona
7 fide offered to the public until the time Plaintiff commenced this action.

8 67. This Count is not grounded in fraud.

9 **COUNT TWO**

10 **(Against All Defendants For Violations of Section 12(a)(2) of**
11 **the Securities Act)**

12 68. Plaintiff repeats and realleges allegations 1 through 67, except to the
13 extent such allegations charge the defendants with intentional or reckless misconduct
14 or otherwise sound in fraud.

15 69. This Count is brought by Plaintiff, pursuant to Section 12(a)(2) of the
16 Securities Act against all defendants.

17 70. Each defendant was a seller, offeror and/or solicitor of the Series B
18 Preferred Stock of New Century offered by the Prospectus, Prospectus Supplement,
19 or by other communications.

20 71. The Prospectus, Prospectus Supplement, and such other communications
21 contained untrue statements of material fact, omitted to state other facts necessary to
22 make the statements made not misleading, and failed to disclose material facts.

23 72. Defendants' actions as seller, offeror and/or solicitor included
24 participating in the preparation of the false and misleading Prospectus and Prospectus
25 Supplement.

1 73. Defendants owed to the purchasers of New Century securities the duty
2 to make a reasonable and diligent investigation of the statements contained in the IPO
3 materials, including the Prospectus and Prospectus Supplement contained therein, to
4 insure that such statements were true and that there was no omission to state a
5 material fact required to be stated in order to make the statements contained therein
6 not misleading. Defendants knew of, or in the exercise of reasonable care should
7 have known of, the misstatements and omissions contained in the IPO materials as
8 set forth above.

9 74. Defendants were sellers of New Century Series B Preferred Stock within
10 the meaning of §12 in that they held title to the stock and offered and/or sold the
11 stock for financial gain. Defendants were well-positioned to control, and did control,
12 the flow of information to potential purchasers of New Century Series B Preferred
13 Stock and/or supplied or authorized the dissemination of the information contained
14 in the IPO materials, including the Prospectus and Prospectus Supplement, that was
15 provided to purchasers.

16 75. Plaintiff and other members of the Class bought New Century Series B
17 Preferred Stock pursuant to the defective IPO materials, including the Prospectus and
18 Prospectus Supplement. Plaintiff and the other members of the Class did not know
19 of the untruths and omissions contained in the IPO materials, including the
20 Prospectus and Prospectus Supplement.

21 76. By reason of the conduct alleged herein, Defendants violated §12(a)(2)
22 of the Securities Act. Accordingly, those members of the Class who hold New
23 Century Series B Preferred Stock acquired in or traceable to the IPO have the right
24 to rescind and recover the consideration paid for their shares, with interest thereon,
25 less the amount of any income received thereon, upon tender, and hereby elect to
26
27
28

COUNT FOUR**(Violations of Section 10(b) of The
Exchange Act And Rule 10b-5 Promulgated
Thereunder Against New Century and The Individual Defendants)**

84. Plaintiff repeats and realleges allegations 1 through 83 above.

85. As alleged herein solely with respect to plaintiff's Exchange Act claims, New Century and the Individual Defendants acted with scienter in that they knew that the public documents and statements, issued or disseminated by or in the name of the Company were materially false and misleading; knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws.

86. New Century and the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding New Century and its business practices their control over and/or receipt of New Century's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning New Century, were active and culpable participants in the fraudulent scheme alleged herein. New Century and the Individual Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this Complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

1 87. New Century and the Individual Defendants: (a) knew or recklessly
2 disregarded material adverse non-public information about New Century's financial
3 results and then existing business conditions, which was not disclosed; and (b)
4 participated in drafting, reviewing and/or approving the misleading statements,
5 releases, reports and other public representations of and about New Century.

6 88. During the Class Period, New Century and the Individual Defendants,
7 with knowledge of or reckless disregard for the truth, disseminated or approved the
8 false statements specified above, which were misleading in that they contained
9 misrepresentations and failed to disclose material facts necessary in order to make the
10 statements made, in light of the circumstances under which they were made, not
11 misleading.

12 89. New Century and the Individual Defendants have violated §10(b) of the
13 Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed
14 devices, schemes and artifices to defraud; (b) made untrue statements of material facts
15 or omitted to state material facts necessary in order to make statements made, in light
16 of the circumstances under which they were made, not misleading; or (c) engaged in
17 acts, practices and a course of business that operated as a fraud or deceit upon the
18 purchasers of Series B Preferred Stock during the Class Period.

19 90. Plaintiff and the Class have suffered damage in that, in reliance on the
20 integrity of the market, they paid artificially inflated prices for their Series B
21 Preferred Stock. Such artificial inflation was removed from the share price upon
22 disclosure of the truth. Plaintiff and the Class would not have purchased Series B
23 Preferred Stock at the prices they paid, or at all, if they had been aware that the
24 market prices had been artificially and falsely inflated by defendants' false and
25 misleading statements.

COUNT FIVE

**(Violation of Section 20(a) Of The
Exchange Act Against Individuals Defendants)**

91. Plaintiff repeats and realleges each and every allegation contained above.

92. The Individual Defendants acted as controlling persons of New Century within the meaning of the Section 20(a) of the Exchange Act. By reason of their senior executive and/or Board positions they had the power and authority to cause New Century to engage in the wrongful conduct complained of herein.

93. By reason of such wrongful conduct, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Series B Preferred Stock during the Class Period.

WHEREFORE, plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action and certifying plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: 3-16-07

THE LAW OFFICE OF ALAN BERG

By: 

Alan Berg
15165 Ventura Boulevard, Suite 400
Sherman Oaks, CA 91403
818-716-3060
818-788-8104 (Fax)
alanhd@aol.com

BERGER & MONTAGUE, P.C.
Sherrie R. Savett
Douglas M. Risen
1622 Locust Street
Philadelphia, PA 19103
215-875-3000
215-875-4604 (Fax)

COUNSEL FOR PLAINTIFFS

**NEW CENTURY FINANCIAL CORPORATION
SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK (NYSE: NEW PrB)
CERTIFICATION PURSUANT TO THE FEDERAL SECURITIES LAWS**

I, Joe Verne, ("Plaintiff"), duly swear and say as to the claims asserted under the federal securities laws, that:

1. I have reviewed a draft complaint against New Century Financial Corp. and certain of its officers and directors, I approve of its contents, and I hereby authorize my selected counsel, Berger & Montague P.C., to file a Complaint and a Lead Plaintiff Petition on my behalf.

2. Plaintiff did not purchase the security that is the subject of this action at the direction of counsel or in order to participate in this private action.

3. Plaintiff is willing to serve as representative plaintiff on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff's transactions in New Century Financial Corp's Series B Preferred Stock during the August 15, 2006 through February 7, 2007 Class Period are as follows:

# of Shares Purchased	Date	Price
10,000	12/20/06	\$24.80
 # of Shares Sold	 Date	 Price
10,000	02/13/07	\$19.548

5. Plaintiff has not sought to serve as class representative under the United States federal securities laws in the past three (3) years preceding the date on which this certification is signed.

6. Plaintiff has not accepted and will not accept any payment for serving as representative plaintiff on behalf of the class beyond his pro rata share of any recovery, except for any award for reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered by the court.

7. I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed this ____ day of February, 2007, at Highland Beach, Florida.

By: _____

Joe Verne
3720 S. Ocean Boulevard, Apt. 1506
Highland Beach, FL 33487
561-330-0017